

Ernie Fletcher
Governor

Teresa J. Hill, Secretary
Environmental and Public
Protection Cabinet

Christopher L. Lilly
Commissioner
Department of Public Protection



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Mark David Goss
Chairman

John W. Clay
Commissioner

Honorable David Jeffrey Barberie
Corporate Counsel
Lexington-Fayette Urban County Government
Department Of Law
200 East Main Street
Lexington, KY 40507

December 1, 2006

CERTIFICATE OF SERVICE

RE: Case No. 2002-00277
Kentucky-American Water Company aka Kentucky American Water

I, Beth O'Donnell, Executive Director of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the addressee by U.S. Mail on December 1, 2006.

A handwritten signature in dark ink, appearing to read "Beth O'Donnell", written over a horizontal line.

Executive Director

BOD/jc
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124 West Todd Street
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Nick O. Rowe
President
Kentucky-American Water Company aka Kentucky American Water
2300 Richmond Road
Lexington, KY 40502

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Suite 200
Frankfort, KY 40601-8204

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

COMPLIANCE OF KENTUCKY-AMERICAN)	
WATER COMPANY, AMERICAN WATER WORKS)	
COMPANY, RWE AKTIENGESELLSCHAFT AND)	
THAMES WATER AQUA HOLDINGS GMBH WITH)	
THE PROVISIONS OF THE ORDERS)	CASE NO. 2002-00277
APPROVING THE TRANSFER OF CONTROL OF)	
KENTUCKY-AMERICAN WATER COMPANY TO)	
RWE AKTIENGESELLSCHAFT AND THAMES)	
WATER AQUA HOLDINGS GMBH)	

ORDER

Kentucky-American Water Company ("Kentucky-American"), Thames Water Aqua Holdings ("Thames"), Thames Water Aqua US Holdings, Inc. ("TWUS"), RWE Aktiengesellschaft ("RWE") and American Water Works Company ("AWWC") (collectively "Joint Applicants") have applied for Commission approval of Kentucky-American's 2006 Third Quarter Dividend on common stock ("Third Quarter Dividend"). Finding that Kentucky-American's dividend policy has not been affected by the change in ownership, the Commission approves the payment of the Third Quarter Dividend of \$1,253,913, which is scheduled to be paid on December 4, 2006.

In Case No. 2002-00317,¹ the Commission approved the transfer of control of Kentucky-American from AWWC to Thames, TWUS, and RWE subject to 61 conditions.

¹ Case No. 2002-00317, The Joint Petition of Kentucky-American Water Company, Thames Water Aqua Holdings GmbH, RWE Aktiengesellschaft, Thames Water Aqua US Holdings, Inc., Apollo Acquisition Company and American Water Works Company, Inc. for Approval of a Change of Control of Kentucky-American Water Company (Ky. PSC Dec. 20, 2002).

One of these conditions was that Joint Applicants obtain Commission approval prior to the payment of any dividend or transfers of any funds within a calendar year that collectively represent more than 5 percent of Kentucky-American's retained earnings as of December 31 of the prior calendar year to RWE, Thames, TWUS or any other entity related to RWE.²

We imposed this condition to ensure Kentucky-American's financial ability to provide reliable service and to guard against any effort to drain Kentucky-American's treasury to finance RWE's acquisition of AWWC or pay the premium associated with the acquisition.³ It enables us to monitor transfers from Kentucky-American and prevent unusual or extraordinary transfers of funds. Absent the imposition of this condition, our statutory ability to monitor and prevent such conduct is very limited.

On October 25, 2006, Kentucky-American declared its Third Quarter Dividend of \$1,253,913, which is scheduled to be paid on December 4, 2006. Joint Applicants submitted their request for Commission approval of Kentucky-American's Third Quarter Dividend on November 10, 2006. Applicants state that Kentucky-American's declared Third Quarter Dividend of \$1,253,913 is in conformity with the historical dividend policy of paying 75 percent of earnings available for common dividends.⁴ Collectively the declared dividend of December 4, 2006 and dividends paid earlier in 2006 represent

² Id., App. A at 6.

³ Case No. 2002-00018, Application For Approval of the Transfer of Control of Kentucky-American Water Company to RWE Aktiengesellschaft and Thames Water Aqua Holdings GMBH (Ky. PSC May 30, 2002) at 20 – 21.

⁴ See Joint Applicants' Request for Approval of Dividend Payment at 1.

more than 5 percent⁵ of Kentucky-American's accumulated retained earnings as of December 31, 2005.⁶

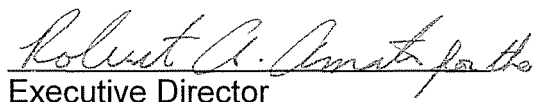
The Commission, having reviewed the evidence of record and being otherwise sufficiently advised, finds that Kentucky-American's dividend policy has not been affected by the change in ownership. Therefore, Kentucky-American's payment of the Third Quarter Dividend of \$1,253,913 should be approved.

IT IS THEREFORE ORDERED that Kentucky-American's December 4, 2006 common stock dividend of \$1,253,913 is approved.

Done at Frankfort, Kentucky, this 1st day of December, 2006.

By the Commission

ATTEST:


Executive Director

⁵ $\$0$ (4th Quarter 2005) + $\$62,652$ (1st Quarter 2006) + $\$689,652$ (2nd Quarter 2006) + $\$1,253,913$ (3rd Quarter 2006) = $\$2,006,017 \div \$25,898,028$ (Retained Earnings as of 12-31-05) = 7.739%

⁶ Annual Report of Kentucky-American Water Company to the Public Service Commission of the Commonwealth of Kentucky for the Year Ended December 31, 2005 at 13.